



A Reverse Mortgage: Is it Really Right for You?

As the cost of living continues to rise, many senior citizens living on fixed incomes find that they need more cash to cover their expenses. A reverse mortgage, if utilized properly, can be a valuable tool to help older homeowners access the equity in their homes and use that money to meet rising costs. A reverse mortgage is not suitable for everyone, however. You must carefully evaluate your circumstances before entering into a reverse mortgage agreement—there may be other options that better fit your individual needs. You should also be on the lookout for predatory lenders and scam artists whose sole purpose is to cash in on the hard-earned equity in your home.

What is a reverse mortgage?

A reverse mortgage is a unique type of loan that allows a homeowner to turn part of the equity in his or her home into cash without having to make any payments for as long as the homeowner lives there. With a traditional mortgage, you make monthly payments to a lender. Over time, the amount of money you owe on your home decreases, while your equity in the home increases. With a reverse mortgage, the opposite happens: You draw out money from the equity you have built up in your home, so over time your debt increases and your equity decreases.

With a reverse mortgage, you no longer make monthly payments to the bank. Instead, the bank pays you. You can decide how you want to draw out the money—either in one lump sum, a fixed amount every month, a line of credit, or a combination of these payment methods. Typically, you are not required to pay back the reverse mortgage for as long as you live in the home. The bank is repaid the loan balance when you sell the home, move out of the home, or when you pass away. It is important to note that you still own the home even though you have taken out a reverse mortgage. You are therefore free to leave the home to whomever you choose. However, when your heirs inherit the home, the amount left owing on your reverse mortgage must be repaid. If the amount left owing is equal to 100 percent of the home's value, your heirs will be left with nothing.

Unlike a traditional mortgage, reverse mortgages have no income or credit qualifications. The amount of money you can borrow with a reverse mortgage depends on several factors, including your age, the type of reverse mortgage product you select, the appraised value of your home, and current interest rates. Generally, the older you are and the greater the value of your home, the more money you will be able to borrow.

What are the different types of reverse mortgages and how do I qualify?

There are three types of reverse mortgages: **Single Purpose Reverse Mortgages**, **Proprietary Reverse Mortgages**, and federally insured reverse mortgages, also called **Home Equity Conversion Mortgages (HECM)**.

Single Purpose Reverse Mortgages are usually granted by state and local government agencies and nonprofit organizations to homeowners with low to moderate incomes. These loans usually have very low costs but are not available everywhere, and typically they can be used only to help the homeowner pay for things such as home improvements and property taxes.

Proprietary Reverse Mortgages are private loans and are offered by banks, mortgage companies, and other private lenders. Proprietary Reverse Mortgages are almost always the most expensive type of reverse mortgage, but if your home has a high value, these loans may provide larger cash advances than an HECM.

Home Equity Conversion Mortgages (HECM) are loans backed by the Federal Housing Administration (FHA) and are the only kind of federally insured reverse mortgage. As the insurer, the FHA tells HECM lenders how much they can lend to you based on your age, the value of your home, and current interest rates. HECM loans are available in all 50 states and generally offer the widest array of cash-advance choices. The vast majority of reverse mortgages are provided under the HECM program.

How do I qualify?

To qualify for an HECM—and for most reverse mortgages—you must:

- Be at least 62 years of age;
- Own the home; and
- Live in the home as your principal residence.

Additionally, your home must meet minimum FHA property standards.

What obligations do I have after I get a reverse mortgage?

After you receive a reverse mortgage, you will still be required to do the following:

- Pay your property taxes;
- Pay your homeowner's insurance; and
- Maintain the property in good repair.

If you fail to do any of these things, your reverse mortgage could go into default and you could potentially lose your home in foreclosure. It is therefore very important that you understand the terms of the reverse mortgage and carefully evaluate whether you will be able to meet the requirements of the program before you obtain the loan.

What should I look for when considering a reverse mortgage?

If you are considering a reverse mortgage, consider the following tips:

1. **Review all of your other options.** The costs of reverse mortgages can be high, so if you need only a small amount of money for a short period of time, you may have other and better options, such as a home equity loan or a line of credit.
2. **Understand the product.** Make sure that you understand all the loan terms that are presented to you. Also, be sure to shop around from lender to lender to compare loan charges and the terms being offered.
3. **Seek legitimate help.** Federal law requires you to obtain counseling from a HUD-certified housing counseling agency or other approved government agency before applying for a reverse mortgage. The purpose of the counseling is to provide independent information about the program and to make sure you understand the terms of the loan and are aware of other options that may be available to you. In addition, because a reverse mortgage is a complicated product and can have serious financial consequences, you may want to consider also consulting an attorney or trusted financial advisor before you enter into the transaction.

4. **Beware of scare tactics.** Be skeptical of agents who use fear to sell you a reverse mortgage. An agent who exploits your fear of going into a nursing home or of running out of money does not have your best interests at heart. Also, beware of lenders or agents who tell you that the government has somehow endorsed the sale of reverse mortgages. And be leery of anyone who tries to discourage you from talking to trusted friends or family members about your decision.
5. **Beware of sales gimmicks.** Be extremely cautious if anyone tries to sell you something—such as a new roof or another financial product including an annuity or long-term care insurance—and suggests that you pay for it with the proceeds of a reverse mortgage. Taking out a reverse mortgage to buy long-term care insurance or an annuity, or to make an investment, is almost always a bad idea because the cost of the loan is usually more than you could earn on any prudent investment.

Beware of mortgage brokers/lenders or counselors who don't take adequate time to make sure that you really understand the product and to help you evaluate whether the loan is suitable based on all of your financial needs and circumstances. Beware of sales agents who tell you that counseling is only a formality and that you should ignore the counselor's advice. **A list of HUD-certified reverse mortgage counseling agencies and lenders in your area can be found on HUD's Web site at www.hud.gov or by calling 1-800-FED-INFO (1-800-333-4636).**

Cancellation

In any reverse mortgage transaction, **you have three business days after signing the loan papers to cancel the loan**, for any reason. The cancellation must be done in writing and postmarked before midnight of the third business day. You cannot cancel orally or by telephone.

If you suspect that someone is committing reverse mortgage fraud, or if you have been a victim of fraud yourself, contact the Office of the Illinois Attorney General **Homeowner Helpline** at (866) 544-7151.

Consumer Fraud Hotlines

Chicago

1-800-386-5438
TTY: 1-800-964-3013

Springfield

1-800-243-0618
TTY: 1-877-844-5461

Carbondale

1-800-243-0607
TTY: 1-877-675-9339

Senior Fraud Helpline

1-800-243-5377
TTY: 1-800-964-3013

Homeowner Helpline

1-866-544-7151 (Voice/TTY)

ID Theft Hotline

1-866-999-5630
TTY: 1-877-844-5461
Español: 1-866-310-8398

IllinoisAttorneyGeneral.gov